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Summary of the July 2017 Resolution Plan Public Sections

Deloitte Recovery & Resolution Planning
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Summary of firms' 2017 Resolution Plan Public Sections

All eight domestic Global Systemically Important Banks (G-SIBs) were required to submit a public section to the Federal Reserve Board (FRB) and Federal Deposit Insurance Corporation (FDIC)

Background

Prior to the July 2017 submissions, the eight G-SIBs addressed all deficiencies from the April 2016 feedback.

Firms have benefitted from the increased transparency from the FRB/FDIC (collectively, "the Agencies") on expectations across the **six key resolution capabilities** (*shown right*) and have demonstrated significant improvements across those areas to demonstrate a credible plan.

Firms noted significant improvement in resolvability across the key capabilities that attempt to address firm-specific shortcomings identified by the Agencies last year as well as the expectations laid out in the guidance (2017 Guidance[1]) for the 2017 Plans.

Capability	Enhancements to Key Capabilities (as disclosed by firms)
Capital	• Incorporated capital metric thresholds that, when breached, trigger required actions; indicated sufficient capital for resolution capital adequacy positioning (RCAP) and resolution capital execution need (RCEN); in some cases currently meeting 2019 total loss absorbing capital (TLAC) requirements
Liquidity	• Indicated having sufficient resolution liquidity adequacy positioning (RLAP) and resolution liquidity execution need (RLEN); ability to produce daily RLAP estimates and conduct RLAP estimates over a 30-day stress scenario
Governance Mechanisms	• Developed triggers and escalation frameworks for timely enterprise reporting and responses; developed material entity (ME) specific board playbooks
Operational	• Performed analysis to identify material financial market utilities (FMUs); created collateral management policies; developed formal procedures to identify and store critical service dependencies and mitigate risk in resolution with contractual arrangements
Legal Entity Rationalization	• Incorporated Legal Entity Rationalization (LER) criteria reviews resulting in some cases to structural changes, creation of holding companies, and services companies
Derivatives & Trading	• Built capabilities to track and monitor risk associated with derivatives and trading (D&T), including on legal entity basis

As described in the public sections, firms have made structural and procedural progress since their previous Resolution Plan submissions to improve their resolvability and support their preferred strategies. Examples include:

Establishment of service companies: Five firms disclosed that they have created or consolidated their critical services into one or more service companies to simplify the interconnectedness of their organization.

Projection of capital and liquidity: Three firms have described detailed projections of the firm's capital and liquidity position under their preferred resolution strategy.

Support operating entities through agreements: Five firms have disclosed that they established support & security agreements to ensure entities could operate as going concerns in resolution.

Divestiture options: Some firms have also provided different divestiture options like sale of business lines, legal entities, regional banks and portfolio of business that can be executed in financial distress scenarios.

1- https://www.federalreserve.gov/newsevents/pressreleases/files/bcreg20160413a1.pdf

Observations of Key Capabilities (1 of 10) - Capital

The following pages summarize features described in the public sections submitted to the Agencies on July 1, 2017.[2]

Theme	Common Features[3]	Differentiating Features
Capital	• Indicated having sufficient Resolution Liquidity Adequacy and Positioning (RLAP) and Resolution Liquidity Execution Need (RLEN) at each material entity to support their resolution strategies • Created specific capital metric thresholds that, when breached, trigger actions, notifications, and reporting protocols along their crisis continuum • Established the ability to perform sensitivity analyses for RCAP and RCEN needs under different resolution scenarios • Created an allocated mix of pre-positioned capital and buffers between the parent, Intermediate Holding Companies (IHCs), and subsidiary material entities • Incorporated pre-funded holdback expenses at the parent level to pay for bankruptcy expenses • Incorporated inter-affiliate costs into their working capital calculations • Created pre-funded IHCs to hold capital for subsidiary material entities • Independently reviewed capital calculation assumptions and methodologies	• Performed analysis over current state and currently exceeding the 2019 Final TLAC Rule requirements; whereas, others indicated they are on-track to comply by 2019 • Created the ability to calculate RCAP & RCEN needs at a daily frequency • Prefunded service entities/service companies with six months of working capital • Established the ability to perform near real-time portfolio reconciliations across currencies*

Additional Considerations

Tax Considerations:

- Certain firms identified deferred tax assets/liabilities that impact the Tier 1 capital ratio
- One of the firms highlighted deferred tax liabilities as an adjustment to Tier 1 capital within its calculation

[2] - This document only considers information that firms disclosed as part of their Public Section filings in the July 2017 submissions. The undisclosed sections of the various submissions likely contain additional information that, if not discussed in the Public Sections, would not have been included in this analysis.

[3] - Common Features refers to specific features disclosed by more than half of the firms in their respective Public Sections

* - Only one firm

Observations of Key Capabilities (2 of 10) - Liquidity

Theme	Common Features	Differentiating Features
Liquidity	• Stated having sufficient Resolution Liquidity Adequacy and Positioning (RLAP) and Resolution Liquidity Execution Need (RLEN) at each entity to support their resolution strategies • Established the capability to produce RLAP estimates on a daily basis • Conducted an RLAP estimate over a 30-day stress scenario • Hold a pre-positioned mix of liquidity with buffers between their parent/IHC and subsidiary material entities • Defined assumptions considered restrictions to liquidity, FMI requirements, and client/ counterparty behaviors • Aligned liquidity metrics and thresholds to escalation protocols within their crisis continuum • Independently reviewed liquidity calculation assumptions and/or methodologies	• Conducted their RLAP estimate using a 90-day stress scenario* • Created a dedicated Intraday Liquidity Steering Committee* • Conducted their liquidity analysis under multiple stress scenarios* • Reported a liquidity coverage ratio (LCR) above 100% • Developed technical capabilities to send automatic alerts for major liquidity deviations*

Additional Considerations

Tax Considerations:

- Certain firms discussed the tax cost of transferring liquidity between legal entities
- One firm provided an example of the 'tax friction' that could result upon a transfer

* - Only one firm

Observations of Key Capabilities (3 of 10) - Governance

Theme	Common Features	Differentiating Features
Governance	• Developed trigger and escalation frameworks to guide the timely execution • Defined a sequence of triggers in the context of a continuum during business as usual through resolution scenarios and bankruptcy (although the number of stages and naming varies by firm) • Defined decision making processes within governance playbooks for the boards, executives and other governing bodies during a resolution scenario • Included a challenge process of the governing documents	• Stated they regularly test the resolution strategy under rigorous stress scenarios • Described recovery and resolution planning (RRP) training conducted for various governing bodies • Conducted testing to determine timeliness to gather relevant information in a crisis • Disclosed they obtain certification of review and approval by its board* • Utilized its Risk Management Framework to incorporate resolution and recovery efforts under the direction of its Risk function; other firms have developed standalone policies under the direction of a Resolution Steering Committee (or equivalent)*
	Additional Considerations	
	N/A	

* - Only one firm

Observations of Key Capabilities (4 of 10) - Operational

Theme	Common Features	Differentiating Features
Operational: Payment, Clearing, and Settlements	• Performed a qualitative and quantitative analysis to identify material FMUs and agent banks, including analyzing volume and value data for each FMU • Developed FMU contingency playbooks with actionable steps to allow for continued access during resolution • Enhanced intraday liquidity monitoring and forecasting, increased pre-positioned liquidity, and incorporated payment, clearing and settlements (PCS) estimates into their resolution financial projections • Enhanced their reporting of FMU exposures and details by material entity • Established governance processes and protocols around their PCS capabilities	• Established a formal governance group to monitor and coordinate PCS activities leading up to and during resolution • Established agreements between material entities for continuing indirect access to FMUs • Established a group to enhance communication with clients* • Created a centralized repository to store and maintain contracts and membership information for FMUs*
	Additional Considerations	
	N/A	

* - Only one firm

Observations of Key Capabilities (5 of 10) - Operational

Theme	Common Features	Differentiating Features
Operational: Collateral	• Stated they have a comprehensive collateral management policy for enterprise-wide governance • Enhanced management information system (MIS) capabilities to easily track & value collateral; For example, one firm reported having a robust data sourcing & enterprise-wide platform that provides a holistic centralized view of collateral across the firm • Created the ability to identify Committee on Uniform Identification Procedures (CUSIP) and asset class information on collateral pledged • Created the capability to document all netting and re-hypothecation arrangements with affiliates and external legal parties • Established the ability to forecast additional collateral requirements under stress events • Established the capability to report key terms from the agreements that govern collateral • Created the capability to identify legal and operational differences and potential challenges in managing collateral within specific jurisdictions, agreement types, counterparty types, collateral forms, and other distinguishing characteristics	• Leveraged intelligent search capabilities, machine learning, & advanced mathematics to build a single, firm-wide qualified financial contract (QFC) repository system* • Established a specialized governance committee responsible for overseeing the collateral management policy and governance* • Developed a simulation engine for securities and finance activities that quantifies potential net future exposures relating to certain transactions and provides analysis of potential market and firm risks*
	Additional Considerations	
	N/A	

* - Only one firm

Observations of Key Capabilities (6 of 10) - Operational

Theme	Common Features	Differentiating Features
Operational: Management Information Systems	• Established the capabilities to produce data underpinned by a reporting infrastructure with sufficient granularity to facilitate decision-making in stable and stressed conditions • Created the ability to meet, and in some instances exceed, data and reporting expectations articulated in the Agencies' SR14-1 Letter • Established the ability to produce resolution-critical contracts and their terms in a timely manner • Created the functionality to maintain and analyze interconnections between and among legal entities, core business lines, critical operations, and critical services	• Created the capability to monitor daily liquidity requirements for material legal entities • Digitized third-party, intercompany and customer contracts and the ability to report on various provisions • Completed testing on their MIS ready capabilities • Defined formal MIS procedures in place to facilitate ongoing information-sharing in resolution* • Implemented policies, principals, and technology to protect client and firm assets from cyber-attacks, and other misappropriations • Created a central repository of rule sets to determine net exposures to counterparties*
	Additional Considerations	
	N/A	

* - Only one firm

Observations of Key Capabilities (7 of 10) - Operational

Theme	Common Features	Differentiating Features
Operational: Shared and Outsourced Services	• Created formal mapping procedures in order to capture interdependencies a firm would require in a resolution scenario (i.e. Internal critical services, critical third-parties, and critical non-financial asset dependencies) • Leveraged information gathered from mapping procedures to formalize and strengthen the sustainability of inter-affiliate service relationships in resolution by: o adding arms-length pricing o adding "resolution friendly" contractual language • Disclosed having allocated capital to legal entities to assist with the continuation of services in resolution	• Established dedicated "service companies" to house assets and services identified as critical during mapping procedures to further enhance their shared and outsourced services capabilities. Whereas, other firms made structural changes to house some of the assets and services identified in existing "service entities" • Created a technology solution to store, categorize, and report interdependency mapping information captured from their formalized mapping procedures • Allocated working capital to promote continuity and access to shared services for a full six months • Created playbooks to document actions related to Shared and Outsourced services, including Employee Retention, Inter-Affiliate Services, Facilities, Technology, and Vendor Management • Aligned analysis to consider Shared Services and Outsourcing with Legal Entity Rationalization initiatives

Additional Considerations

Tax Considerations:

- One of the firms highlights the Tax department as a critical shared service with identified sub-services such as Tax Planning and Tax Compliance
- One firm highlights tax services as an inter-affiliate service provided by parent company to its subsidiaries

Observations of Key Capabilities (8 of 10) - LER

Theme	Common Features	Differentiating Features
Legal Entity Rationalization and Separability	• Applied LER criteria to their legal entity structure which resulted in entity realignment & divestitures in several firms to enhance clean ownership lines and funding pathways • Enabled ongoing simplification to the execution of their LER criteria assessment since the last submission • Utilized IHC to facilitate clean funding pathways and provide funds to material entities (7 firms). The other firm will fund directly from the Parent • Established/enhanced BAU governance framework incorporating specific & actionable legal entity criteria • Established an annual review to ensure ongoing compliance to LER criteria and review of potential changes to the criteria • Placed emphasis on flexibility and optionality of sale options • Developed playbooks to ensure transaction executions will be actionable on short notice and in a time of stress • Established communication plans to manage internal and external communications and escalation protocols	• Identified specific entities for sale based on their target legal entity structure; Other firms focused on executability and/or value as an independent business • Performed due diligence on hypothetical divestures and/or analyzed potential buyers; Other firms focused on the potential valuation of the entities for sale • Developed carve-out financial statements for entities considered as potential sale options • Incorporated challenge for limited exceptions to legal entity criteria into governance process*

Additional Considerations

Tax Considerations:

- Certain firms mentioned income tax assets/liabilities as key items on the balance sheet of entities that have been identified for potential divestiture in a resolution scenario
- Certain firms referenced regulatory and/or tax reasons why certain entities included within object of sale scenarios could not be transferred under a single holding company

* - Only one firm

Observations of Key Capabilities (9 of 10) – D&T

Theme	Common Features	Differentiating Features
Derivatives & Trading	• Utilized preferred and active wind-down strategy methods to wind-down their derivatives portfolio in case of financial distress • Established governance and controls to appropriately review and challenge their wind-down strategy • Built capabilities to track and monitor risk associated with derivative trading including on a legal entity basis to ensure the firm has operational capacity to transfer prime brokerage accounts to other prime brokers in an orderly fashion during financial distress	• Established and maintained credit rating agency playbooks to aid stakeholder communication through the crisis continuum • Identified an assumption that only listed and centrally cleared derivatives could be used for hedging* • Developed a strategy to actively package, price and sell trading portfolios to support their resolution strategy* • Performed analysis based on 2008 conditions to understand client and counterparty behavior prior to the stated maturities of such positions* • Established a derivatives booking model that facilitates resolvability by ensuring that risks are aggregated into legal entities where they can be best managed and that the bank does not originate transactions that impede resolvability in BAU conditions*

Additional Considerations

Scope of D&T Firms:

- The D&T section was only applicable to the five firms with significant derivatives & trading activity
- The agencies did not exempt foreign bank organizations (FBOs) from producing active and passive wind-down analysis and reporting in their latest resolution plan submissions

* - Only one firm

Observations of Key Capabilities (10 of 10) – Legal

Theme	Common Features	Differentiating Features
Legal – Day 1 Implications	• Executed contractual binding mechanisms (CBMs) in the form of support and security agreements • Aligned compliance policies and processes to adhere to the International Swaps and Derivatives Association (ISDA) protocol to improve resolvability • Created ME board bankruptcy playbooks to outline decision making in resolvability scenarios • Completed analysis of potential legal and creditor challenges	• Completed an analysis of potential conflicts of interest such as overlapping ME board directorships* • Incorporated legal considerations to determining potential entities for sale* • Drafted emergency motions and filings to leverage in the event of bankruptcy
	Additional Considerations	
	N/A	

* - Only one firm

Comparison to the 2015 Public Section filings

- Firms on average **increased the length of their public section filings by approximately 65%,** from an average of 65 pages in 2015 to 108 pages in 2017
- This year's submissions ranged in length from 66 to 170 pages, which is a **substantial increase from the last submission,** which ranged from 36 to 102 pages
- Firms made **changes to their legal entity structures** by **consolidating, adding IHCs, and designating additional material entities** from the 2015 submission, which resulted in an increase on average of **18 to 21 material entities** per firm
- The **Single Point of Entry (SPOE) strategy remains the most popular resolution strategy** among the firms, with seven firms now choosing this strategy for resolution
- The Multiple Point of Entry **(MPOE) strategy is the preferred strategy for only one firm**, now that another firm has switched its preferred strategy to the SPOE
- The total **number of core business lines remained relatively unchanged** from the previous submission
- One firm saw an **increase in the number of material service entities by nine**. Material service entities provide **support services, functions and/or resources that are significant to material entities, in support of core business lines and critical operations**.

What’s next - Considerations

Don’t wait for feedback - Continue the march down the path to continuous improvement, prioritizing initiatives noted in your Plan for which future commitments have been made. As follow up questions are raised regarding your Plan in the coming weeks and months, the ability to demonstrate progress since submission could be an important evaluation factor. Efforts, of course, should be focused on removing those impediments with the strongest impact on resolvability.

Seek out better ideas - Benchmark your Plan’s strategy, approach and capability path against those presented in the public section by your peers and explore whether others have identified more efficient, simpler or better approaches that could be tailored to your own organization.

More time means higher expectations - Presently, the outlook for extending the capital plan filing schedule from 1 to 2 years looks promising. However, while firms may wish to catch their breath, slowing momentum could jeopardize the fate of future filings if the deadline does not in fact change or if more is expected to have been fully accomplished and refined throughout the extended planning period.

Refine your organization and more fully integrate resolution planning into BAU - In the scramble to build teams to address the rapid building of past plans, remediation and new submissions, tactical solutions took precedence over longer term strategic and efficient implementation. Now is a good time to think more fully about how more sustainable resolution planning can be distributed among business as usual functions throughout the organization.

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